Past motivations for going International:
- Resource seeking: cheaper materials, labor, natural resources
- Market Seeking: (post WWII)—Essentially the product life cycle theory; (1) Innovation first happens at home (advanced country). (2) Once domestic market is saturated, producers export. (3) Innovating country production reaches max. and foreign production starts. (4) Production at home falls, foreign prodn. Grows. (5) Product gets produced in the most efficient place on planet.

Current Motivations for going global:
- Economies of scale: companies have to sell more volumes to reap efficiencies in prodn. So they go beyond home to sell abroad to be able to sell enough vol. To tap eff. In prodn.
- High R&D costs: To get good return on R&D, companies have to sell more in more markets.
- Shortening product life cycles: Companies have to reap $ back in shortened time, meaning they have to sell in more places in a short time; so go global to diversify sources of revenue.

**MBM Framework**

- **Global Business Environment**
- **Competitive Environment**
- **MNC’s Strategy**
- **Control Organization**
- **Knowledge System**
- **HRM System**
- **Corporate Culture**
- **Organizational Structure**

**Requirements to be satisfied to be called an MNC:**
1. Should have substantial FDI in foreign countries, not just an export business.
2. Active management of offshore assets rather than holding them in a financial portfolio. Offshore operations should be integral part of company, strategically and organizationally. This integration is key to be called an MNC.

**Competitive Advantage of Nations**
- Porter’s diamond of national advantage cites four forces/drivers of national competitiveness:
  1. Factor Conditions—Nations succeed in industries where they are particularly good in factor creation relevant for that industry. India is good in creating IT-labor and hence is succeeding in the Software industry. Selective disadvantage can also prod a nation to innovate: Japan being an island nation had to save on storage costs and hence came up with JIT inventory/manufacturing.
  2. Demand Conditions—Nations gain competitive advantage in industries where the home demand gives them a clear picture of emerging buyer needs and where demanding buyers pressure companies to innovate faster. Local buyers can help nation’s companies especially if their tastes can shape the world’s needs (US buyers’ sophistication in fast food, credit cards).
  3. Related and supporting industries—presence of internationally competitive suppliers helps firms.
  4. Strategic Factors—this is arguably the most powerful driver. This gives firms “bragging rights” in home market. Imagine Satyam, Infosys, TCS, etc. competing for global bragging rights in India.

**Global strategy**
- An integrated and coordinated use of worldwide assets, resources, and capabilities. When should you use a global strategy?
  1. As a response to a competitor’s global strategy.
  2. When products are being sold to large customers, say an OEM, then a global strategy is appropriate. When goods are sold to individual consumers, cultural preferences come into play, but when being sold to OEMs, the goods tend to be “intermediate” goods (components) with technology or high EoS. The product is standardized in these cases.
  3. Within a product line, to manage risks on a worldwide basis, a global strategy is needed.
  4. When your customers are globalizing and they want you to provide a seamless service worldwide.
  5. Want to create a global brand name/reputation.

**Tips for global strategy:**
- Organizational issues are very key for an effective global strategy. Manage them well.
- Enter your global competitor’s home market so that you can hit them at their core strength. You can watch their moves closely. Also you can compete for the same share of resources—suppliers, distributors, labor pool, etc.
- Subsidize one market for another—you can subsidize a strategic market to gain market share, while charging premiums elsewhere to cover for the subsidies.
- Make preemptive investments to capture early lock on key resources.
- Share knowledge and best practices worldwide.
- The successful global competitor manages its system in various countries as a single system, not as a portfolio of independent investments. Leverage strength in one market to gain advantage in another.

**ALLIANCES:**
- Globalization is a key force driving alliances. Escalating fixed costs, converging consumer tastes, rapidly spreading technology, and growing protectionism are all driving forces as well.

<table>
<thead>
<tr>
<th>Alliance Benefits / Advantages</th>
<th>Alliance Costs / Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time advantages, faster to market.</td>
<td>Partner can learn too much and get cheap education at your expense (GM—Toyota NUMMI venture: Toyota learnt more because it made explicit effort to learn)</td>
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<tr>
<td>Enhances learning.</td>
<td>Cultural/Managerial/Organizational dysfunction. Different styles of two companies could hurt marriage.</td>
</tr>
<tr>
<td>Exploits EoScale, and Core competence.</td>
<td>Partner could steal product ideas/IP from you.</td>
</tr>
<tr>
<td>Control over key supplier (why don’t you vertically integrate them? Well, you should focus on your core Comp.).</td>
<td>Overreliance on alliances—done as a way to buy out of trouble. Do not enter when core business needs fixing.</td>
</tr>
<tr>
<td>Entry into new markets (China entry has to be via JVs)</td>
<td>All investments, spread fixed costs.</td>
</tr>
<tr>
<td>Spreading the risk (Sharing oil field exploration, say)</td>
<td></td>
</tr>
<tr>
<td>Build scale fast and erect barriers to entry.</td>
<td></td>
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<tr>
<td>Tips for managing alliances</td>
<td></td>
</tr>
<tr>
<td>1. Select the RIGHT partner—single most important decision for success/failure of JV/Alliance.</td>
<td>2. Enter with a clear purpose; alliance is not a panacea to fix core business problems.</td>
</tr>
<tr>
<td>2. Manage knowledge flows across alliance boundary, across all levels of organization.</td>
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<tr>
<td>4. Build TRUST into the alliance—absolute key to success.</td>
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**Organizational structure**
- A relatively stable pattern of [decision making, reporting, controlling, monitoring] relationships. It exists because there are limits to individual human abilities and time (physical limitations). So a group needs to form to achieve something. Also specialization is inevitable given that one person can’t master it all. These specialized tasks need to be coordinated.
Transnational

Global

Multinational

International

<table>
<thead>
<tr>
<th>WW</th>
<th>Natl. Flexibility</th>
<th>WW Learning</th>
<th>Org. Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Centralized federation: HQ dictates. Day-2-day freedom for subsidiaries. Head of subsidiary comes from HQ.</td>
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</table>

When would you centralize? More centralization is needed in a global industry: industries that have EoScale.

<table>
<thead>
<tr>
<th>Functional-Based Org. Struct.</th>
<th>Product-Based</th>
<th>Area/Region Based</th>
<th>Customer Based</th>
</tr>
</thead>
<tbody>
<tr>
<td>Used when one function dominates firm (oil drilling)</td>
<td>- Reinventing functional wheel</td>
<td>- No EoS; Area based silos.</td>
<td>+ Pool knowledge &amp; learning across clients</td>
</tr>
<tr>
<td>- Coordination across silos difficult</td>
<td>- No interfaces b/w prod. Fragmented approach to cust.</td>
<td>- Area based discrim.</td>
<td>- No/poor functional expertise</td>
</tr>
<tr>
<td>- Product control difficult.</td>
<td>- Output control.</td>
<td></td>
<td>- Conflicts of interest</td>
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When one function dominates the firm (oil drilling)

HRM: Function is much more important in say, Japanese and Asian firms than in US firms. Goal of HRM is “to get the right person in the right place at the right time into the right job.” A function of HRM is to decide who to send for the job in a subsidiary in a foreign country (US-based firm, say). 4 categories of executives: (1) PCN—Parent Country National (no local contacts, not local culture aware; tight HQ contacts though; better knowledge transfer to/from HQ) (2) HSN—Host Country National. (3) TCN—Third Country National. (4) Immigrant Expats (IE)—best possible candidate, if it works right. But could suffer from "going native" hatred from locals. E.g.: Indians might hate an NRI boss more than a foreign boss because they perceive that the NRI has betrayed them.

A transnational strategy demands a transnational executive too. The person should be able to achieve “bi-cultural” mastery.

Power Distance Index: Indicates the extent to which a society accepts the unequal distribution of power in institutions and organizations. High indicates more hierarchy; Low indicates individualism—US like.

Uncertainty Avoidance Index: This spells out the degree to which people hate uncertainty and prefer predictability and stability. High indicates stability preferred. Low indicates entrepreneurship, risk taking.

Individualism/Collectivism: Reflects the extent to which people prefer to care for themselves and their immediate families, remaining emotionally independent from groups, organizations, and other collectivities. High indicates group decision making. Low indicates individual decision making.

Masculinity/Femininity: This dimension reveals the bias towards masculine values—assertiveness, competitiveness, and materialism—or towards femininity—nurturing, quality of life, relationships. High masculinity \( \rightarrow \) task accomplishment important over nurturing social relations.

**Management by objectives (MBOs):** High Individualism, Low to Med. Power Distance, Weak uncertainty avoidance, Highly masculine culture. MBO type management is suited for US culture. For Japan, link business unit/team performance to compensation because individualism is low in Japan. Other aspects are ok w.r.t implementing an MBO type management system in Japan.

- **What most motivates the top managers of multinational subsidiaries to execute the global strategies formulated at HQ?** It is not compensation, monitoring systems, or the magnitude and precision of rewards and punishment? Subsidiary top managers often want an open process (due process) that is consistent and fair and that allows for their input. Taking their input into consideration is the greatest motivator for subsidiary managers to execute a global strategy diktat coming from HQ.

- **Key question addressed in this paper is, “what does it take for multinationals to successfully execute global strategies?”** The authors’ research demonstrates that the strategy-making process itself is very important for an effective global strategy execution. Apart from the standard motivating factors compensation, monitoring systems, and rewards/punishments, a respect for subsidiary’s concerns, allowing for 2-way communications, and rationalizing decisions with subsidiaries are key to successfully execute global strategies.